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Lt. Governor, lawmakers offer plan to reform personal property tax

Proposal aids job growth, protects local governments

LANSING, Mich. – A plan to keep Michigan's economy driving forward by reforming the burdensome personal property tax was outlined today by Lt. Gov. Brian Calley, Senate Majority Leader Randy Richardville and House Speaker Jase Bolger. The proposal recognizes the vital role that strong communities and schools play in Michigan's future by providing reimbursement rates to most local units of 100 percent for police, fire and ambulance revenue losses and a minimum of 80 percent for everything else. It also holds the School Aid Fund harmless and fully covers school debt.

The PPT is imposed on job providers for their commercial, industrial and utility equipment. The antiquated tax, which is more than 100 years old, poses several barriers to job creation and economic growth. Gov. Rick Snyder and Calley continue to work collaboratively with a bipartisan group of lawmakers and stakeholders to reduce the burden on job providers while minimizing revenue losses to local units of government, many of which rely on PPT revenue. Supporters of the plan include the Fraternal Order of Police, Police Officers Association of Michigan and the Michigan Professional Firefighters Union.

"This is a fiscally responsible strategy that helps to lay the groundwork for a more prosperous future," Calley said. "It's an excellent compromise that balances the tax-relief needs of job providers with the revenue needs of our communities and schools. Michigan has come a long way in the past two years but we're not content. We must eliminate obstacles to growth like the PPT so that more families can get better jobs. Reducing this unfair burden on job providers will attract investment and expand local tax bases. This is a critical step that keeps Michigan on the right track."

"The PPT is a tax that punishes job creation while providing essential support for local governments," said Bolger, R-Marshall. "We need to reform this tax so that we can attract the investments that will create new jobs for Michigan's workers. This reform will lead to more opportunities for Michigan families to succeed. I realize many communities rely heavily on the support they receive from the personal property tax. That is why it is essential to provide full replacement funding for police, fire and schools. Things that are worthwhile are rarely easy and this tax reform is no exception. The House looks forward to working on this package with the

Senate and the Governor's Office to take another giant step forward in improving Michigan for hardworking families."

"Reforming personal property tax has been at the top of the Senate's agenda for quite some time," said Richardville, R-Monroe. "This is a tax that literally punishes our job providers for growth and expansion. In order to support our local businesses and attract new companies and industries to Michigan, we have to continue to eliminate obstacles to job creation. This is a proposal that will make us competitive with other states in the region and ensure resources for our local communities. We have tackled a number of tough issues over the course of the past two years and we pledge to maintain that momentum over the next two years. Reforming personal property tax is the next logical step in the process of getting Michigan back to work."

The PPT actually punishes job providers for their success by imposing a tax burden on their capital investments. When a company expands or modernizes, it is penalized with a tax on new equipment ranging from computers to already expensive tools and machinery. It is especially hard on manufacturers, who rely on expensive tools, equipment and other personal property.

The current system discourages investment in Michigan because it disproportionately impacts highly mobile companies, which tend to pay high wages and provide substantial spinoff jobs. It also imposes high compliance and administrative costs on businesses and local governmental units. The PPT puts Michigan at a competitive disadvantage. For example, Ohio and Illinois have eliminated their versions of this tax.

The proposal does not impose a new tax. Reimbursement funding comes from a portion of the existing Use Tax, which is paid on out-of-state purchases. Losses to the state's General Fund due to the redirection of a portion of the Use Tax will be made up with savings realized through expiring certificated tax credits.

Specifically under the proposal:

- Beginning in 2014, all of a taxpayer's industrial and commercial property within a local tax collecting unit will be exempt, as long as the combined taxable value of such property within the unit is less than \$40,000.
- Beginning in 2016, new eligible manufacturing personal property and eligible manufacturing personal property that was new in 2012-2015 would be fully exempt.
- Beginning in 2016, eligible manufacturing personal property that was new in 2005 or earlier will be fully exempt. In each subsequent year, one additional year is added to the exemption until all existing eligible manufacturing personal property is exempt in 2022.
- Eligible manufacturing personal property means all industrial and commercial personal property located on a parcel of real property if the personal property is used more than 50 percent of the time in industrial processing or direct integrated support.
- Regarding reimbursement of lost PPT to local units and School Aid Fund, 80 percent of non-police/fire/ambulance personal property loss will be replaced by the state, except for those subject to the "no reimbursement" threshold. There is no reimbursement for locals whose

exempt personal property taxable value is less than 2.5 percent of their total taxable value for all property.

- Locals could levy a special assessment – an Essential Services Assessment (ESA) – on the real property of exempt taxpayers at a rate needed to replace all of the lost PPT revenue that otherwise would have funded police, fire and ambulance services from their General Fund.
- Taxpayers claiming the eligible manufacturing PPT exemption will have to pay the ESA. School Aid Fund and school debt PPT losses will be fully reimbursed, and reimbursement will begin in Fiscal year 2016.
- In order to reimburse the locals for PPT losses, a portion of the state Use Tax currently going to the General Fund will be dedicated to reimburse locals for PPT revenue losses. The Use Tax will continue to be capped at 6 percent.
- The state General Fund and the School Aid Fund will be reimbursed for the loss of the Use Tax revenue by the savings on the certificated credits that are expiring.
- The local Use Tax component provides a mechanism for distributing certificated credit savings to locals that is not subject to the annual legislative appropriations process. The proposal calls for levying a new “metropolitan areas” component of the existing Use Tax on a statewide basis to generate replacement revenue for PPT reductions. At the same time, the state component of the Use Tax will be reduced by the amount of the metropolitan areas component so that total state and metropolitan areas Use Taxes will never exceed the current 6 percent rate, which is constitutionally limited. Under the plan, about 1 cent to 1.5 cents of the 6-cent Use Tax will be used for PPT reimbursement.
- The 6 percent Use Tax will continue to be paid by businesses and consumers in the same manner as under current law. However, a “metropolitan authority” will receive the revenue generated by the metropolitan areas component for distribution to local taxing units as replacement for reduced PPT revenue.
- Local revenue will not be distributed by the state. It will be distributed by a metropolitan authority with statewide jurisdiction created under Article 7, Sec. 27 of the Michigan Constitution. Funds generated by the metropolitan areas component tax will be funds of the metropolitan authority, and not state funds subject to the legislative appropriations process.
- The change in the Use Tax will be “revenue neutral” and will not increase total state and local taxes levied in Michigan. The levy will require statewide voter approval before taking effect.
- The metropolitan authority will distribute the metropolitan component tax revenue to local units as replacement for reduced PPT revenue. Initially, the replacement will equal 80 percent of the non-police/fire/ambulance loss. Over time, a growing percentage of the reimbursement will be based on the amount of industrial real property in the taxing unit.

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Personal Property Tax Reform Plan

Purpose

To significantly improve Michigan's business environment, competitiveness, and conditions for job growth and investment, while protecting local units that rely on the personal property tax (PPT).

Problems with the PPT

- Punishes companies for making capital investments. Particularly hard on manufacturers, who rely on expensive tools, equipment, and other personal property (PP) in their operations.
- Disproportionately impacts highly mobile companies, creating a significant disincentive to invest and create jobs in Michigan. These companies tend to pay high wages and produce substantial spin-off jobs and investment.
- Imposes high compliance and administrative costs on businesses and local units.
- Makes Michigan an outlier among the states with which it competes.

Plan Components

Personal Property Tax (PPT) Reduction:

- **Small Taxpayer PPT Exemption** – Beginning in 2014, all of a taxpayer's industrial and commercial personal property within a local tax collecting unit would be exempt, so long as the combined taxable value of such property within the unit is less than \$40,000.
- **Exemption for New PP** – Beginning in 2016, new Eligible Manufacturing PP and Eligible Manufacturing PP that was new in 2012-2015 would be 100% exempt.
- **Existing (not new) PP Exemption** – Beginning in 2016, Eligible Manufacturing PP new in 2005 or earlier would be 100% exempt. In each subsequent year, one additional year is added to the exemption until all existing Eligible Manufacturing PP would be exempt in 2022.
- **Eligible Manufacturing PP** – All industrial and commercial PP located on a parcel of real property if the PP is used more than 50% of the time in industrial processing or direct integrated support.

Reimbursement of Lost PPT to Locals and SAF:

- **80% of Non-PFA (police, fire, ambulance) PPT loss** would be replaced by the State, except for those subject to a "no reimbursement" threshold (see below).
- **Local Essential Services Assessment (ESA)** – locals could levy a special assessment on the real property of participating taxpayers at a rate needed to replace 100% of lost PPT revenue that otherwise would have funded police, fire, and ambulance services from their General Fund.
- **Participating Taxpayers** – Taxpayers claiming the Eligible Manufacturing PPT exemption would have to pay the ESA.
- **SAF and School Debt PPT Loss** – 100% reimbursed by the State.
- **Reimbursement** would begin in FY 2016.
- **No Reimbursement** – Locals whose Eligible Manufacturing and Small Taxpayer Personal Property taxable value is less than 2.5% of their total taxable value for all property would not receive any reimbursement from the State.

Source of Revenue to Reimburse Locals and SAF for PPT Losses:

- **Use Tax** – Portion of State use tax currently going to the State's General Fund would be dedicated to reimburse locals for their PPT revenue loss.
- **Certificated Credit Savings** – would be used to reimburse State's General Fund for the loss of use tax revenue and to reimburse the SAF.
- **Local Essential Services Assessments (ESA)** (see above ESA description).

Essential Services Assessment Component

Purpose

- Provides a local mechanism for replacing lost PPT revenue that was funding PFA (police, fire, ambulance) services.
- Allows taxpayers receiving the benefit of the Eligible Manufacturing Personal Property exemptions to reimburse locals for lost PFA revenue.

Proposal

- Option for locals to levy an Essential Services Assessment to replace 100% of lost PPT revenue from the Eligible Manufacturing Personal Property exemptions that was being used to fund PFA services.
- Levy would apply to the real property of any taxpayer claiming the Eligible Manufacturing Personal Property exemptions. It would not apply to the real property of taxpayers claiming the Small Taxpayer exemption.
- Local vote would not be required but would provide protection against a Headlee challenge.

Local Use Tax Component

Purpose

Provides a mechanism for distributing certificated credit savings to locals that is not subject to the annual appropriations process.

Proposal

- Levy a new metropolitan areas component of the existing use tax on a statewide basis to generate replacement revenue for reduced local personal property taxes. At the same time, the state component of the existing use tax¹ would be reduced by the amount of the new metropolitan areas component so that total state and metropolitan areas use taxes would never exceed the current 6% rate.
- The 6% use tax would continue to be paid by businesses and consumers in the same manner as under current law, but a metropolitan authority would receive the revenue generated by the metropolitan areas component for distribution to local tax collecting units as replacement for reduced local personal property tax revenue.
- The local revenue would be distributed by a metropolitan authority with statewide jurisdiction created under Const 1963, art 7, § 27, not the state. Funds generated by the metropolitan areas component tax would be funds of the metropolitan authority, and not state funds subject to the annual state appropriations process.
- The change in the use tax would be revenue neutral and would not increase total state and local taxes imposed in Michigan.
- The current 6% constitutional cap on sales/use taxes in Michigan would remain in effect.
- Imposition of the levy would be subject to voter referendum, requiring approval of a majority of electors at a statewide election before taking effect.
- The metropolitan authority would distribute the metropolitan component tax revenue to local units as replacement for reduced personal property tax revenue. Initially, the replacement would equal 80% of non-PFA (police, fire, ambulance) loss. Over time, a growing percentage of the reimbursement would be based on the amount of industrial real property in the taxing unit.

¹ Currently, revenue from the first 4 cents of use tax imposed on each dollar is dedicated to the state general fund. Revenue from the next 2 cents of use tax imposed on each dollar is dedicated to the state school aid fund.

REINVENTING MICHIGAN

Building a Stronger Future

Personal Property Tax Reform

"The legislature needs to complete the job of modernizing our tax system by passing PPT reform. The Tax Foundation just released the 2013 State Business Tax Climate Index which showed Michigan's impressive rise to 12th nationally. However, when it comes to property tax, our state ranks 31st among our peers.

Reforming the PPT will place Michigan in the top 10."

— Rick Baker, President and CEO, Grand Rapids Area Chamber of Commerce

"Reform and elimination of Michigan's business personal property tax is a key component to improving our business climate. This proposal presents a meaningful opportunity to eliminate this burdensome tax."

— Tricia Kinley, Michigan Chamber

"We appreciate the leadership of the Snyder Administration in removing this barrier to Michigan's competitiveness. We want to work with the legislature to find solutions in getting this package done this year. Most states do not tax industrial equipment, so we are operating at a competitive disadvantage. Moving forward now will continue to fuel Michigan's manufacturing driven recovery with more new jobs and more new investment."

— Chuck Hadden, MMA

"When determining whether or not to create jobs, invest in new equipment or consider an expansion, I have to consider the negative financial impact the PPT will have on those investments. This liability puts my company at a competitive disadvantage compared to other businesses in the Midwest. We need PPT reform to support manufacturing in Michigan."

— Jim Zawacki, Chairman, GR Spring and Stamping, Inc.

"The Personal Property Tax is an outdated tax that impedes Michigan from moving forward. I look forward to the roll back and eventual elimination of the PPT for all businesses in Michigan."

— Tom Little, NFIB Member and Small Business Owner

"Ford applauds Governor Snyder, Lt Governor Calley and Senate and House leaders for working to reduce a significant tax penalty on investment in Michigan. Industrial personal property taxes are simply a tax on manufacturing equipment and fall most heavily on new equipment. In the intensely-competitive automobile manufacturing marketplace, new product and future investment is critical to succeed. Ford also places high value on the communities where we work and live and we believe it important that our communities thrive. We are hopeful that working together we can reach a positive long-term solution to make Michigan more competitive for manufacturing while balancing the revenue needs of local communities."

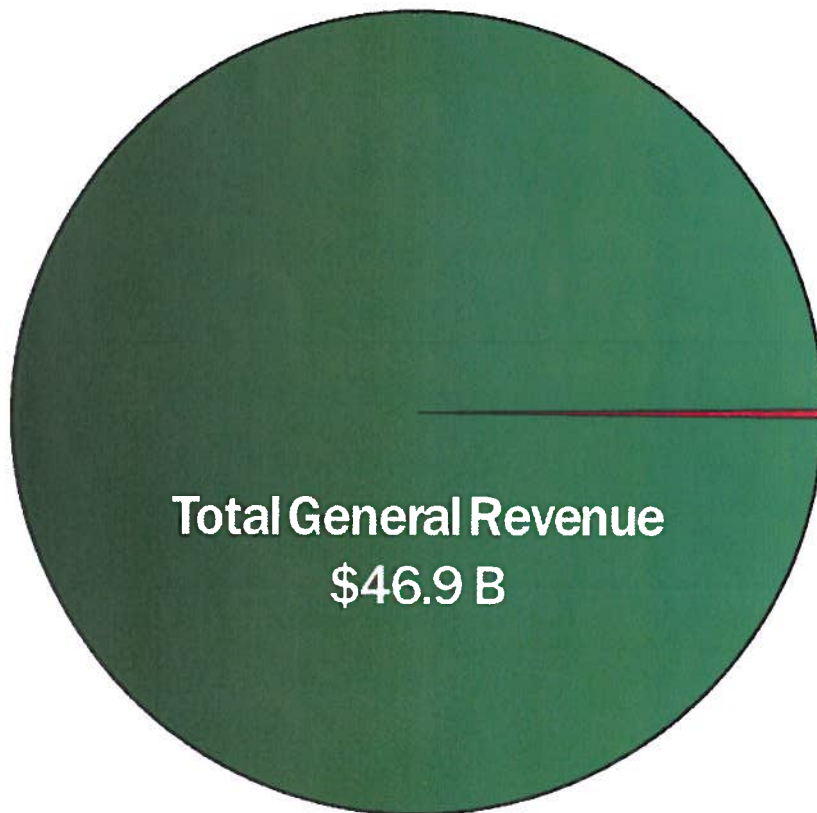
— Ford Motor Company

"The Governor's proposal would reform a tax that creates a great disincentive for business to invest in capital and equipment. Combined with the recent move away from the Michigan Business Tax to the new Corporate Income Tax, it would give our state a powerful 'one-two punch' in the competition for jobs."

— Charlie Owens, MI State Director, NFIB

"The elimination of the industrial personal property tax will send a powerful message that Michigan is a favorable environment in which to grow our business, and ultimately create jobs. Tax policy is a significant factor in Dow's decisions about where to locate our plants, but strong quality of life in the communities in which we operate is equally important. Dow applauds the Snyder/Calley administration and the legislature for working to find a solution that will allow local governments to continue providing critical services upon which we all rely."

— Richard Wells, VP and site director of the Dow Chemical Company Michigan Operations



Total Exemptions
\$593.2 M

Total Reimbursement
\$500.9 M

**Amount Not
Reimbursed**
\$92.3 M (.19%)